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COMMERCIAL ISOLATION VERSUS INTERNATIONAL TRADE

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The future trade of the United States and of the world at large will not depend so much on the changes between the different nations brought about by the war, as upon the principle of trade organization which will be adopted at its close.

For more than a century the world has discarded the principle of self-sufficiency which was the trade ideal of days gone by and moved deliberately to a state of international interdependency, though the danger of war was never absent from the minds of European nations. They and their foreign customers had become dependent on each other not only for luxuries but for the necessities of life. Germany, for example, is dependent on foreign supplies for about 8 per cent of her grain foodstuffs; she is dependent for the proper working of her estates on the yearly immigration of foreign laborers; foreign countries are dependent on her for dye-stuffs, sugar, and to a certain degree for credit. The degree and the nature of international dependency vary in different countries. It is probably the smallest in the United States and greatest in England. It has been the basic principle of modern trade development.

Will that principle be affected by the experience of the war? I am not discussing the changes of a temporary nature brought about by re-arrangements between the belligerents and the neutrals and between the neutrals themselves. I am alluding to the permanent change in the principle of international trade. It seems to me that such a change is unavoidable if certain conditions are not fulfilled.

I. International trade evolved an international clearing house of which London was the seat. Though England's share of the world's trade is only about 18 per cent, she is by far the biggest importer of bulky goods and the greatest carrier between nations. A very great share of international obligations was cleared in Lon-

don by means of drafts on London. There always was a demand for those drafts, based on the firm belief that drafts on London, and drafts on London alone, were as good as gold. That belief has been shattered. London drafts were not as good as gold. In fact, England opened the list of countries proclaiming a moratorium; postponing of payment did not come to an end before the beginning of December. This fact has not found due attention in the United States, since at the date of the proclamation of the moratorium they were heavily indebted to England. The rest of the world has realized it well enough. As far as international payments are concerned, English credit has broken down completely. It cannot resume its former place, for the belief that England is safe from war cannot any longer be maintained. It is doubtful whether any other market can take England's place, which depended on neutrality and security in European wars and on the absence of unwise home legislation. If New York could take London's place, well and good, if not, a permanent serious damage to the international trade machinery will have been done.

The amount of capital invested by the leading countries in foreign lands has been considerable. England's foreign investments were valued at about \$14,000,000,000, France's investments at \$6,000,000,000, German investments at \$5,000,000,000. The indebtedness of the United States is calculated at \$6,000,000,000. It has always been assumed that those international credits formed a great asset to the creditor nations in time of war, inasmuch as sales would facilitate borrowing for war purposes. The closing of the neutral stock exchanges has greatly hampered the disposal of those securities. They could, of course, be loaned and thus yield something, but they have not proved the mainstay of war finance they were expected to be. The center for those international securities was London. The probable decline in international security dealing would affect London most severely, even if no other forces were at work.

As London was the great center of international trade and international finance many securities were dealt in London exclusively. Many of them belonged to foreign countries. Many foreigners, among them many citizens of the belligerent countries, invested money by means of the London stock exchange and deposited the securities in London. Falling back on an old law, which

forbids trading with the enemy, the British government took over all property belonging to private citizens of belligerent countries. Though it may be possible to pay an enemy for goods bought from him, it is forbidden to let him have the dividends on his stocks, the share of his business, the control of his securities. British statistics show that property to the value of \$425,000,000 is kept from its rightful owners by the action of that government. German patents in England were confiscated. In fact, all income rightfully due to private citizens was withheld. Russia and France quickly followed suit and after a few months' interval the German and Austrian government had to retaliate. It is but right to assume that those business men who have gone through the experience of seeing their income withheld from them and who are deprived of the control of their capital will avoid future investments of any sort in England or France. It is very doubtful whether another credit market having the same facilities, but giving them real security, can be found. Capital will be far more nationalized than before. International credit relations will have received a severe blow.

II. Up to now international theory assumed that private property was practically free from seizure, provided it was not used directly for the support of armies. It was assumed on all sides that there might be some difficulty in getting raw materials and provisions for the civil population in ships of the belligerents. But it was always maintained that neutrals would be free:

A. To send non-contraband goods to any of the belligerents without serious molestation;

B. To trade with other neutrals even if there was some assumption of the goods ultimately reaching the enemy.

This belief has been shattered. Early in the war many neutral countries bordering on Germany were dependent on importation from abroad for all sorts of supplies. They were not allowed to get them without promising to lay an embargo on exports to Germany. Thus the transit trade was interfered with. Later on the importation of food destined for the civil population of Germany was prohibited, even if carried in neutral ships. This development showed plainly enough that dependency on foreign supplies might endanger a nation in time of war. Not only could the supply of armies be prevented—everybody had always reckoned with that possibility—but a policy of starvation might be directed against the civil

population including women and children. Neutral states depending on importation themselves had no power of protesting as their supply might be injured. The only country which, as the supplier of all sorts of goods, foodstuffs as well as armaments, is indispensable to the Allies whose fleet prevent trade, the United States, has chosen to tolerate that practice, though it disapproves of its principle.

This fact will dominate the future of international trade, for the *effective* protest of neutral powers has always been considered the one security in time of war on which trade could rely. That security has failed.

It is not very likely that the policy of starvation tried against Germany will succeed. It is sufficient that it has been tried. It might succeed at other times and against other countries in other circumstances. No nation has the right to run a risk twice, after having escaped by the skin of its teeth, as it is not likely that wars will never occur in the future.

Two policies and two possibilities only exist with regard to the future of foreign trade:

1. The easiest way of preventing danger of starvation will be a return to the policy of self-sufficiency. Such a policy is only possible to big countries like Germany. Even she would have to pay a big price for it. She might achieve it by confederation with neighboring countries; for example a customs-union with Austria-Hungary, and by relying more and more on international trade by land via the Balkans and Asia Minor than by over-sea trade, subject to the control of foreign powers. It would not make her entirely independent of foreign supplies, but by combining a policy of self-sufficiency with one of government storehouses for cotton, coffee, etc., she might be fairly secure. Her chemical industries might discover new supplies; for example, at present the import of nitrate from Chile is entirely supplanted by artificial nitrate made in Germany. It would be a costly process to her, but it could be achieved, though the trade interests of other countries, amongst them the United States, would suffer greatly. There is no doubt that countries like Chile or Argentine could not look to the American market for the diminished exports in raw material. Their purchasing power would suffer, and like most suffering countries they would be obliged to take up a policy of seclusion and artificial indus-

trialization. The smaller European countries could not follow such a policy. They might be compelled by their economic interests to enter into commercial unions with bigger neighbors as they scarcely could afford to stand alone.

2. A policy of self-sufficiency cannot be adopted by England. Even if we include Ireland (and England's connection with Ireland depends on the control of the sea) she could not hope to find food and work for her people within her confines; she will have to rely on over-sea supplies. She will have to take them more and more from her possessions. She will have to change her system of free trade, as her fiscal system will be unable to bear the strain of war finance, and she will have to try to compensate her dependencies for continued support. But her connection with the dominions depends on the same control of the sea, as does the over-sea trade of other nations.

Her policy has always been to insure her over-sea supply by the overwhelming strength of her navy. Her navy has been the means of cutting off the supplies of other nations and of guaranteeing her own supply. As long as she is able to maintain that attitude, international trade cannot be free and nations depending on international trade are depending on England. If England ever went to war with Russia, a contingency by no means impossible, she might stop non-contraband trade at San Francisco and Seattle. She might try to stop Germany's supply of copper from the United States, for fear of its transportation to Russia. And there is only one remedy against that, it seems: the possession of a navy big enough to protect one's trading rights, those of the neutrals as well as those of belligerents. The big countries will have to face the question of which will be the better policy for them: an expensive navy and increasing international dependency; or a system of store-houses, a smaller navy and self-sufficiency. If they choose the latter, the small countries will be at England's mercy. If they choose the first, the small countries may profit by the fleets of their big neighbors. It seems to me that the future prospects of international trade are very dark, whatever be chosen, if the world goes on tolerating the claims of a single state to regulate international commerce according to her own insular wants. There can be no free international trade without the free sea. And if there is no such commerce, the permanent growth of the trade of the United

States will be quite as unsafe as that of other countries. Protests, experience has shown that plainly enough, are of no avail, even when issued by a neutral who could easily retaliate. The future of international trade mostly depends on the question of whether there is a hope of inducing England to change her attitude. Such a hope exists as soon as England will realize that she cannot maintain the supremacy of the sea, which alone safeguards her against starvation at the present time. As long as that supremacy depended on expensive battleships, her freedom from military burdens gave her a great financial advantage. If it could be shown that the submarine, which is comparatively cheap, can stop trade as effectively as battleships, that advantage has gone. Moreover, experience has shown that England's superiority at sea is much smaller than was ever believed, even when she is allied to three powerful nations. That alliance will not be permanent.

Lastly, England is bound morally as well as by her interests to drive Germany from Belgium. It might be a cheap price for her to accept the principle of the free sea in theory and practice, which she alone of all nations objects to. It might be the only method of getting her way.

The support of the neutrals, whose interests she has greatly violated, might make such policy more acceptable to her. If the principle of the free sea is acknowledged and safe-guarded with efficient safe-guards, there will be a great and beneficent development of international trade. If not, the world—and America with the rest of the nations—will have to choose between commercial isolation or interdependence defended by costly armaments.